



School District No. 22 (Vernon)

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2016/17 Budget Update Report to the Board

February 24, 2016

Introduction

The Board of Education, School District No. 22 (Vernon), is accountable for the public funds supporting the school district. One of the Board's responsibilities is the adoption of the district budget.

The Board manages and budgets its financial resources in three distinct areas:

- Operating fund,
- Special purpose funds, and
- Capital funds.

Boards of Education operate on a fiscal year of July 1st to June 30th.

Pursuant to section 156 of the *School Act*, Boards of Education are required to maintain budgetary control over expenditures and prepare and submit financial reports to the Minister, in the form, with the information and at the time required by the Minister.

Boards must prepare an annual budget and have it adopted by bylaw on or before June 30, 2016 and submitted to the Ministry by this date.

This report provides an update and additional information to the report provided to the Board on December 16, 2015. An updated budget development timeline is provided at the end of this report.

The district has also developed guiding principles and budget criteria to help facilitate the decision making process. These guidelines and criteria are outlined in this report and are for the Board's consideration and approval.

The 2016/17 Annual Budget and Bylaw will be prepared in the required format and is currently planned for presentation to the Board and for first reading at their April 27, 2016 Board Meeting.

Prior to the bylaw being presented to the Board, the district will be facilitating a number of opportunities for the partners and stakeholders to provide input and feedback to the Board through the budget development process.

The district will prepare and distribute information throughout the process to help support the guiding principles of communication, consultation, and transparency.



Operating Fund Background

Revenues

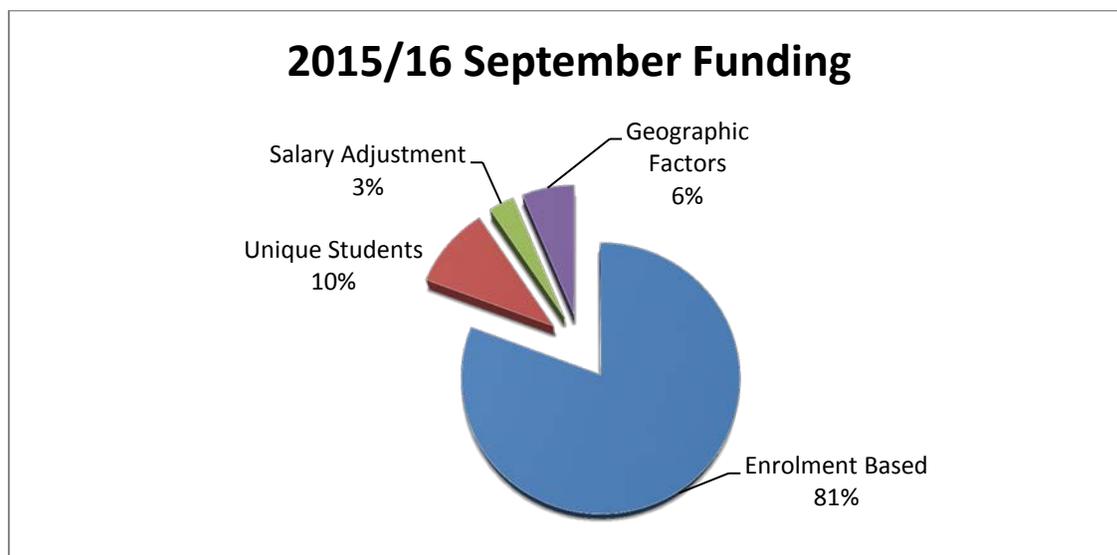
Approximately 93.2% of the school district's operating revenue comes from the Ministry of Education. This includes funding recovered by the Province and subsequently received from Aboriginal Bands.

The district operates an International Program which generates over \$4.5 million each year, 5.8% of the district's operating revenue.

The balance of the operating revenue comes from other provincial grants, rental/lease revenue, investment income, and other miscellaneous revenue which account for 1% of the district's operating revenue.

The provincial funding to districts is distributed through a Funding Allocation System that contains a number of formulae. The Ministry announces preliminary operating grants to school districts on or about March 15th each school year.

The Ministry of Education's Funding Allocation System (FAS) is primarily based upon student enrolment. There are allocations for enrolment decline, differences in teacher salary costs, geographic factors and for unique students including special education, aboriginal, and English Language Learners.



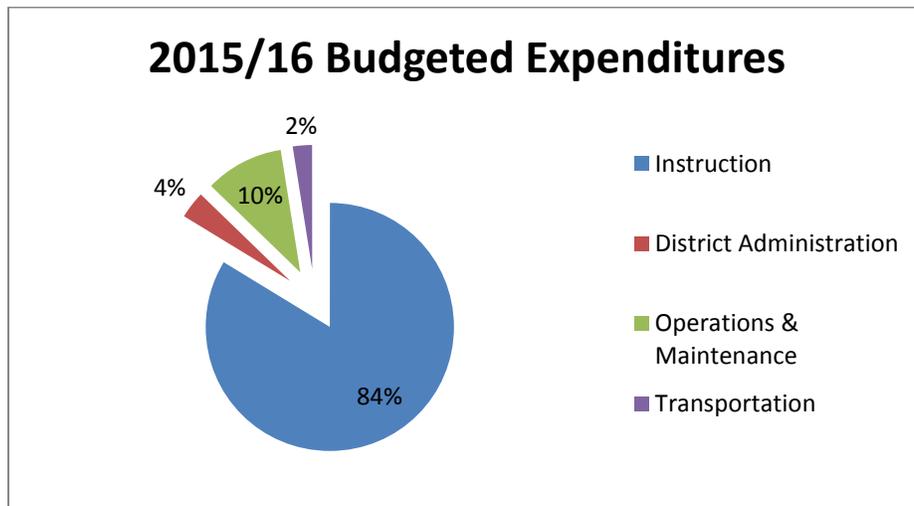
With 81% of funding tied directly to the number of students enrolled, any change in enrolment significantly impacts the district's revenue. All of the other factors are also linked to some degree to the enrolment of the district.



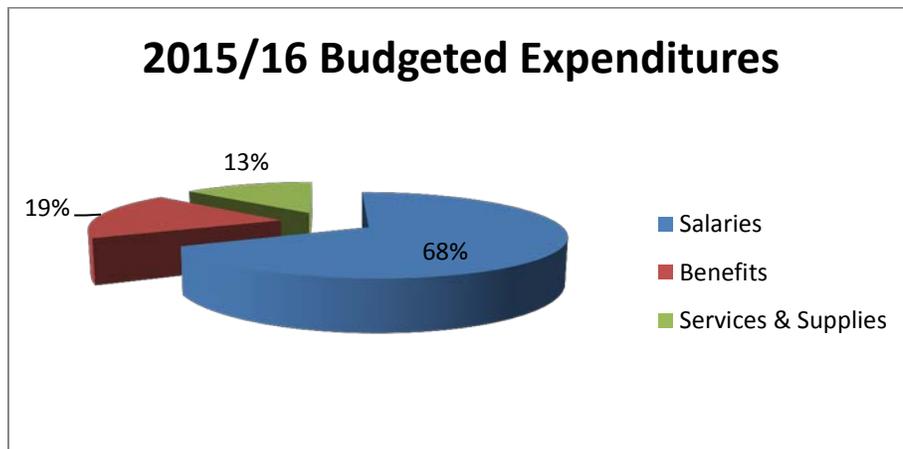
Expenditures

The Board budgets expenditures into four functions:

- **Instruction** – programs related to the instruction of students.
- **District Administration** - programs related to district governance and district administration of educational, business, human resource and labour relations.
- **Operations and Maintenance** - programs related to the district's responsibility for the operation, maintenance and safety of sites, buildings, grounds, furniture and equipment, and computer equipment.
- **Transportation** – programs related to the transportation of students.



The district budgets 84% of the Boards operating expenditures towards instructional programs.



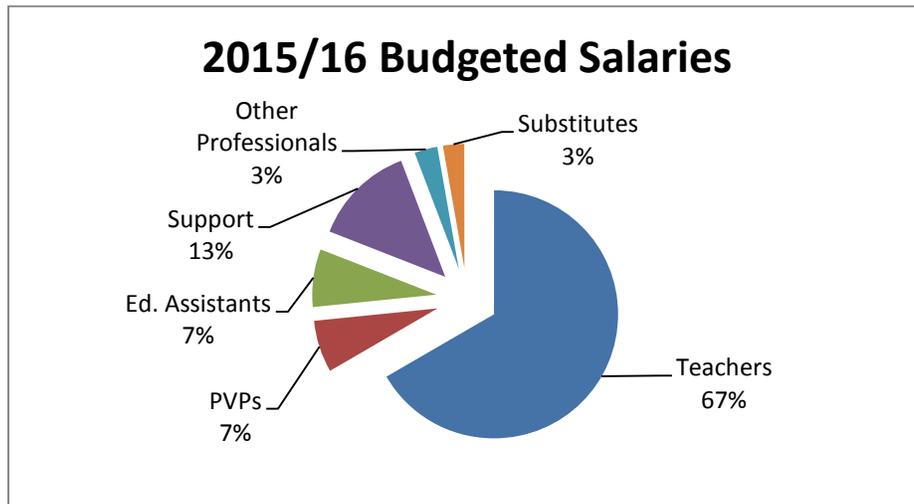
Salaries and benefits comprise the majority of the district's operating budget with 87% of the Boards operating expenditures related to the employment of staff.



Salaries

Salary costs comprise 68% of the operating budget and approximately \$53.7 million annually.

Salaries are broken down into five main categories: Teachers, CUPE (Support and Ed. Assistants), Principals/Vice-Principals, Other Professionals, and Substitutes.



Both teachers and CUPE staff employees covered by collective agreements have reached negotiated settlements through to June 30, 2019. Included in those settlements are a number of salary increases and benefit changes.

Principals and Vice-Principals and Exempt staff are employed through individual employment contracts and their salary and benefits are controlled through the BC Public School Employers' Association (BCPSEA) and the Public Sector Employers' Council (PSEC).

Benefits

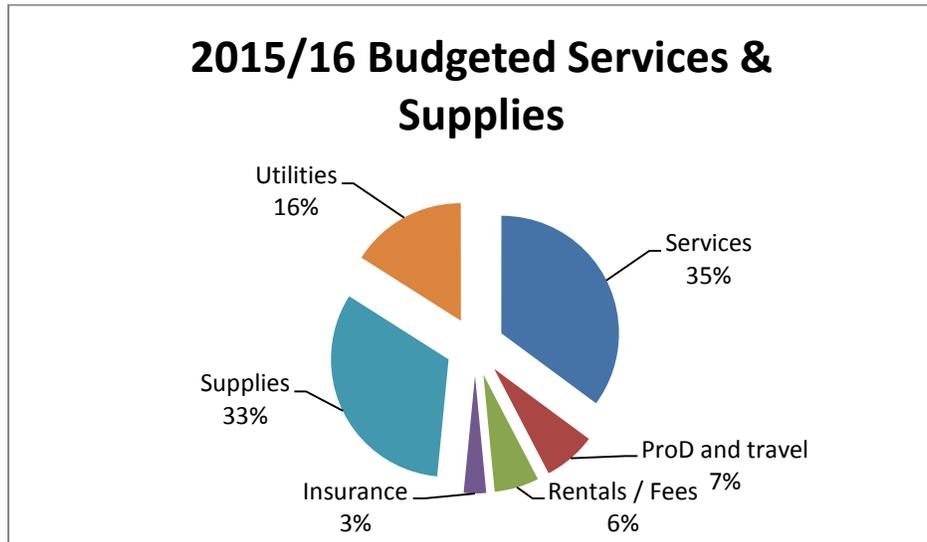
Benefit costs make up 19% of the budget.

Benefit costs continue to escalate under existing benefit plans. Medical Services Plan (MSP) premiums and other costs related to Basic Life, Extended Health, Dental plans, CPP and EI changes, and any contribution rates employee pension plans typically increase each year.



Services and Supplies

Services and supply costs for all aspects of the district make up the remaining 13% of the operating budget and are comprised of the following type of expenditures.



Budget Process

As the Board plans for the next fiscal year and prepares its budget, the District:

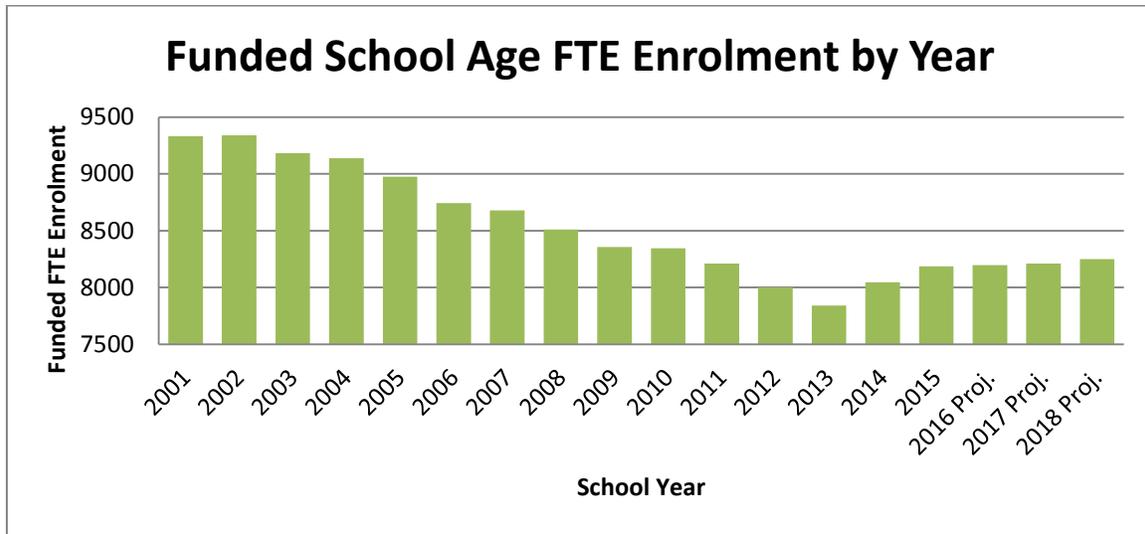
- 1) Determines the factors that will change;
(Student Enrolment, contract and collective agreement changes, program changes, one-time items)
- 2) Projects the costs of providing existing services into the next year;
(Salaries, benefits, utilities, etc.)
- 3) Projects revenues, reviews current year's budget, and determines net budget position;
- 4) Identifies options and strategies to address net budget position and reviews guiding principles and priorities; and
- 5) Finalizes decisions.

The budget is a “living” document that identifies the financial resources appropriated by the Board to provide the human and material resources necessary to meet the district's educational and operational objectives.



Changing Factors

The district is currently projecting a very minor increase for regular enrolment of 13 students for the 2016/17 school year. Small enrolment increases are also projected for 2017/18 and 2018/19.



Enrolments in Special Education programs are expected to increase with enhanced assessments and reporting practices being implemented. The largest increase is expected in our Level 3 Category of Intensive Behaviour Interventions / Serious Mental Illness. Most other enrolments are expected to remain relatively unchanged.

Changing enrolment either increases or decreases school district revenue. This is typically mainly offset by increases or decreases in expenditures as staffing and services and supplies are related to enrolment.

Salary and Benefits

CUPE employees are entitled to a 0.5% salary increase effective July 1, 2016 and an additional 1.0% effective May 1, 2017. The estimated cost increase to the district in 2016/17 is \$89,000.

CUPE employees are also entitled to a potential salary increase through the Economic Stability Dividend (ESD) calculation effective May 1, 2016 and May 1, 2017. The Province has determined that the ESD effective May 1, 2016 will be an additional 0.45% for an additional cost increase of \$57,000 in 2016/17. The increase through the ESD for May 1, 2017 and its impact is undetermined at this time.

Total projected negotiated cost increase for CUPE salary, including benefits, for 2016/17 is \$146,000.



Teachers are entitled to a 1.0% increase July 1, 2016 with an estimated cost increase for the 2016/17 school year of \$414,000.

Teachers are also entitled to a potential salary increase through the Economic Stability Dividend (ESD) calculation effective May 1, 2016 and May 1, 2017. The Province has determined that the ESD effective May 1, 2016 will be 0.45% for an additional cost increase of \$186,000 in 2016/17. The increase for the May 1, 2017 ESD and the impact are undetermined at this time.

Teachers will continue to receive improvements to their benefit plans each year over the next four years. Benefit cost increases were \$120,000 in 2014/15 and \$240,000 in 2015/16 and are estimated at \$180,000 for 2016/17.

The District's average teacher salary costs often increase as our teachers advance in the average number of years of service and the level of education they have obtained and negotiated salary increases are implemented. The district will be projecting any changes to the average teacher salary costs for the 2016/17 school year. These are typically offset by changes to our grants through the Funding Allocation System.

Total projected increased costs for negotiated salary increase, including benefits, for teachers is \$780,000.

The BC Public School Employers' Association (BCPSEA) has been working towards new regionalized salary grids for Principals and Vice-Principals (PVPs). In addition, the district is reviewing the benefit plans for PVPs.

Principals and Vice-Principals had been without compensation increases since July 1, 2009 while other unionized employees have been provided with compensation improvements in both salary and wages and benefit plans. Interim increases were approved while work continues on the new regionalized salary grids.

The cost of implementing the regionalized PVP salary grids is currently estimated at \$200,000.

The BC Public School Employer's Association (BCPSEA) is also currently working to develop a K-12 sectoral submission to PSEC for Exempt Staff Compensation. As these other employees not covered by a collective agreement have been without compensation increases since July 1, 2009, compensation structures have not remained current or competitive. BCPSEA is undertaking a comprehensive market review to ensure the development of a revised exempt staff salary structure for each school district — on a total compensation basis — consistent with the relevant comparator labour market and the district's internal organizational structure.

The cost of implementing the revised exempt staff compensation structure is currently estimated at \$90,000.



Teacher Pension Plan employer premiums are being reduced by 1.82% effective July 1, 2016. These premiums are for teachers, PVPs and other excluded educational staff. Premiums for these plans have increased over the years without any increase in funding from the Ministry. It is expected that these savings will therefore be left with districts to offset other costs not funded.

The Province has increased Medical Services Plan premiums each year for the last six years. These increases are effective January 1st. The district will incur the full years' cost of the 4% increase from January 1, 2015 plus another 4% increase effective January 1, 2016. The projected financial cost of these premium changes for 2016/17 is \$35,000.

Expenditure net decreases for benefits is estimated at (\$615,000)

BC Hydro announced rate increases of 9% effective April 1, 2014, another 6% effective April 1, 2015, and expected increases of 4%, 3.5% and 3% in each of the subsequent years. Estimated impact to our District in 2016/17 is \$54,000.

General inflation is predicted at 1.2% resulting in additional costs of \$113,000.

Next Generation Network (NGN) costs are expected to increase by \$10.5 million provincially next year. As the Ministry of Education expects Board to cover these increased costs, our share is expected to be an additional \$100,000 over the amount budgeted in 2015/16.

Expenditure increases for services and supplies is estimated at \$267,000

Total preliminary changes to expenditures identified above amount to an increase of \$868,000.

Revenues

As identified previously, approximately 93.2% of the school district's operating revenue comes from the Ministry of Education through the Funding Allocation System (FAS).

The FAS contains a number of formulae and is primarily based upon student enrolment. There are allocations for enrolment decline, differences in teacher salary costs, geographic factors and for unique students including special education, aboriginal, and English Language Learners.

The Ministry announces preliminary operating grants to school districts on or about March 15th each school year. At this point, government has communicated that there will be no additional funding except for funding the Teacher and Support staff negotiated union collective agreements. The Ministry is also required to announce any changes to the Funding Allocation System at that time.



The Ministry is currently determining how to incorporate the additional funding for the collective agreement changes, reviewing the process and calculations of their holdback funding structure, reviewing the location factor funding formula, and reviewing the funding mechanisms for the Funding Protection grants. No other potential changes being considered are known at this point in time.

It is expected that the additional Labour Settlement funding, including the Economic Stability Dividend, will be included in the Funding Allocation System for 2016/17. For 2016/17, our district should be entitled to approximately \$926,000 of additional funding to offset the costs of the negotiated teacher and support staff agreements.

The Ministry of Education reduced funding to school districts and directed Boards to find administrative savings to offset these reductions in funding. The Ministry is reducing our funding by \$814,000 over two years. The reduction for administrative savings was \$437,000 in 2015/16 leaving an additional \$377,000 reduction in funding for the 2016/17 school year.

No cost increases have been identified on the expenditure side for changes in enrolment. Therefore, no increases to the district's revenue are included at this point for changes in enrolment. It is expected that expenditures will be increased corresponding to projected enrolment changes.

Total operating revenue change at this point is projected at \$549,000.

Surplus

The adoption of the 2015/16 Amended Annual Budget is scheduled for February 24, 2016. At this point, no surplus is anticipated from the current 2015/16 school year to support the 2016/17 Budget.

Projected Net Budget Position

The combination of \$868,000 in projected cost pressures offset by a projected revenue increase of \$549,000 results in a **projected budget shortfall of \$319,000** for the 2016/17 school year. This shortfall has been reduced from the December 16, 2015 report primarily due to the reductions in teacher pension plan premium costs.

Note: While the cost pressures not funded by government are offset by the pension plan savings, the reduction in funding for administrative savings of \$377,000 results in a shortfall.



Other Considerations

The district has recently started a process to develop a Long Term Facilities Plan (LTFP). The district has engaged the services of Thinkspace to help develop this plan. A comprehensive LTFP forms the basis for a Board of Education's capital investment decisions. The LTFP provides the rationale for specific projects that may be proposed as part of a Board of Education's five year capital plan and provides a district-wide framework for other key local decisions, such as school catchment areas and locations for district programs including vLearn and alternate education programs.

The district is also in the process of developing a technology plan. The district previously invested one time funds to upgrade both the infrastructure and systems to help better deliver programs and services. The district now needs a plan that can support the ongoing maintenance and refresh of the equipment and systems.

The Ministry of Education is implementing a new Framework for Enhancing Student Learning. The district will be reviewing its current practices and researching best practices on building effective school and district planning processes.

The Ministry is also implementing new curriculum and has made amendments to the School Calendar Regulation. Additional hours of non-instructional time have been added to provide teachers with an opportunity to participate in discussions and activities relating to the implementation of the new curriculum.

The Ministry continues to advance shared service initiatives. The district participates in these initiatives where they provide additional value and savings to the school district.

Staffing allocations are currently being planned on the basis of the existing language in collective agreements. No provision has been made for any potential changes resulting from the ongoing legal dispute between government and the BCTF.

The Board has asked for a review of school based PVP administration allocations. Information and recommendations will be provided to the Board for consideration.

The district is also collecting information and requests for other changes and improvements. All aspects of our system may be subject to review and could be considered as part of the budget development process. Legislative requirements and other contract requirements, including employee collective agreements and other employment contracts, require the Board to maintain certain programs, services and staffing levels with corresponding budget requirements.

Any additional projected costs or savings identified will be evaluated and considered as part of the budget development process.



While this report has focused on the Operating Fund, the Board manages and budgets its financial resources in three distinct areas:

- Operating fund,
- Special purpose funds, and
- Capital funds.

Special Purpose Funds

The district receives special purpose funding for StrongStarts, Ready Set Learn, Special Education Equipment, Federal French, Community LINK, Annual Facilities Grants and Learning Improvement Funds.

These grants are externally restricted and must be spent consistent with expenditure guidelines.

These programs typically operate within the additional funding provided and any changes to funding results in changes to the programs and services. There is no impact on the operating budget unless the Board subsidizes or maintains these programs and services if funding is reduced or eliminated.

Capital Funds

The district receives funding from the Ministry of Education for specific approved capital projects. These projects are typically funded through bylaw capital and certificate of approvals / lines of credit.

Purchases for computers, equipment, furniture, vehicles, and other improvements that are required to be capitalized, need to be funded out of operating revenues but purchased through the Capital Fund. Budgets need to be established to cover the costs of these items through the transfer to Local Capital.

Fund balances in Local Capital are internally restricted to support capital expenditures that are not otherwise supported or funded by the Ministry of Education.

Next Steps

The Board is required to approve an annual budget on or before June 30, 2016 for the 2016/17 school year. Over the next few months, additional information will be collected and provided to the Board and the budget consultation process will be finalized. Attached is an updated 2016/17 budget development timeline.

The Board should approve budget guiding principles and budget criteria to support the budget development process. Draft guidelines and criteria have been included in this report for consideration.



Options and strategies will be identified and developed to address the net budget position to ensure a balanced budget while helping achieve our mission, goals and objectives. Through a review of existing budgets, reductions may be available to offset the majority of this shortfall without reducing programs and services.

Any other cost increases or program and service enhancements will need to be offset by corresponding reductions to ensure a balanced budget.

The district has initiated a budget input process through Thoughtexchange to help collect additional information for the Boards' consideration.

Through the public budget consultation process the Board can receive input from various stakeholders, including employees and members of the public. The public is invited to attend any of the public Board meetings. Anyone wishing to present to the Board can contact Lynn Jameson, Executive Assistant to the Secretary Treasurer, at 250-549-9226 or ljameson@sd22.bc.ca to request a presentation time on the agenda.

The Board will be establishing other opportunities for the DPAC, First Nations representatives, and Union representatives to discuss the budget development with the Board. Other public input methods to the Board will also be provided.

To help facilitate the implementation of the Board's budget for next year, it is recommended that decisions be made as early as possible. This will allow the Human Resources Department time to process any changes in compliance with collective agreements and allow schools and other departments to prepare for next year.

The funding announcement from the Ministry is expected on or before March 15, 2016.

An updated budget report will be provided to the Board on March 16, 2016. This report will start to identify options for consideration and feedback.

On April 13th, a Draft Budget Adjustment Plan will be presented outlining what changes are being recommended for the 2016/17 annual budget.

On April 27th, it will be recommended that the Board approve a 2016/17 Budget Adjustment Plan.

This adjustment plan will be incorporated into the 2016/17 Annual Budget and Bylaw documents and presented to the Board for first reading at their April 27, 2016 Board Meeting.



2016/17 Updated Budget Development Timelines

December 16 (Wednesday) 7:00pm @SBO	<ul style="list-style-type: none"> • Regular Public Board Meeting - 2016/17 District Budget Report provided
February 24 (Wednesday) 7:00pm @SBO	<ul style="list-style-type: none"> • Regular Public Board Meeting - 2016/17 District Budget Report Update
February 22 - April 4	<ul style="list-style-type: none"> • Public Input to the Board through the district Web Site: www.sd22.bc.ca
March 16 (Wednesday) 7:00pm @SBO	<ul style="list-style-type: none"> • Regular Public Board Meeting - 2016/17 District Budget Report Update
March / April	<ul style="list-style-type: none"> • Trustees meet with PACs and Community groups for budget information/discussion • School District Employee Budget Meeting • DPAC Budget Meeting • First Nations Education Council Meeting
April 13 (Wednesday) 4:00pm @SBO	<ul style="list-style-type: none"> • SPECIAL Public Board Meeting - Draft 2016/17 Budget Adjustment Plan • Closed Committee Meeting * - Final Budget Discussions
April 27 (Wednesday) 7:00pm @SBO	<ul style="list-style-type: none"> • Regular Public Board Meeting - Approve 2016/17 Budget Adjustment Plan - First Reading of 2016/17 Budget Bylaw
May 11 (Wednesday) 4:00pm @SBO	<ul style="list-style-type: none"> • SPECIAL Public Board Meeting - Second Reading of 2016/17 Budget Bylaw • Closed Committee Meeting * - Staffing Update Discussions
May 25 (Wednesday) 7:00pm @SBO	<ul style="list-style-type: none"> • Regular Public Board Meeting - Final Reading & Adoption of 2016/17 Budget Bylaw
	* Board may invite individuals and groups to provide input



Budget Development Guiding Principles and Budget Criteria

The school district's budget is a financial plan that:

- helps the Board achieve its mission, vision and goals;
- reflects the district's educational and operational plans;
- provides a basis to monitor actual versus planned expenditures; and
- helps communicate how we are utilizing our financial resources.

As the Board develops a budget, the following budget guiding principles and budget criteria should be utilized:

Guiding Principles:

1. Complies with the *School Act*, collective agreements, other regulatory requirements and Board policy;
2. Priority on student learning;
3. Recognizes the important role of instructional, administrative and operational support in promoting student learning;
4. Forward looking;
5. Communication and consultation with partners/stakeholders; and
6. Transparent process

Budget criteria:

- ▶ Supports district and school learning plans
- ▶ Ensures healthy and safe learning and working environments
- ▶ Facility and technology budgets to sustain the infrastructure
- ▶ Administration levels supporting necessary administrative activities
- ▶ Compensation frameworks that are rational, defensible, and competitive
- ▶ New initiatives are sustainable for at least three years
- ▶ Budget allocations are equitable, understandable, and predictable
- ▶ Budget estimates reflect anticipated costs
- ▶ District contingency reserve is established and maintained
- ▶ Initiatives not within our K-12 mandate are at least cost neutral
- ▶ Maximize surplus from revenue generating initiatives to enhance services
- ▶ Ongoing costs should not be greater than ongoing revenues
- ▶ One-time revenues and surpluses shall only be used to cover one-time costs
- ▶ Encourages efficiencies and best practices